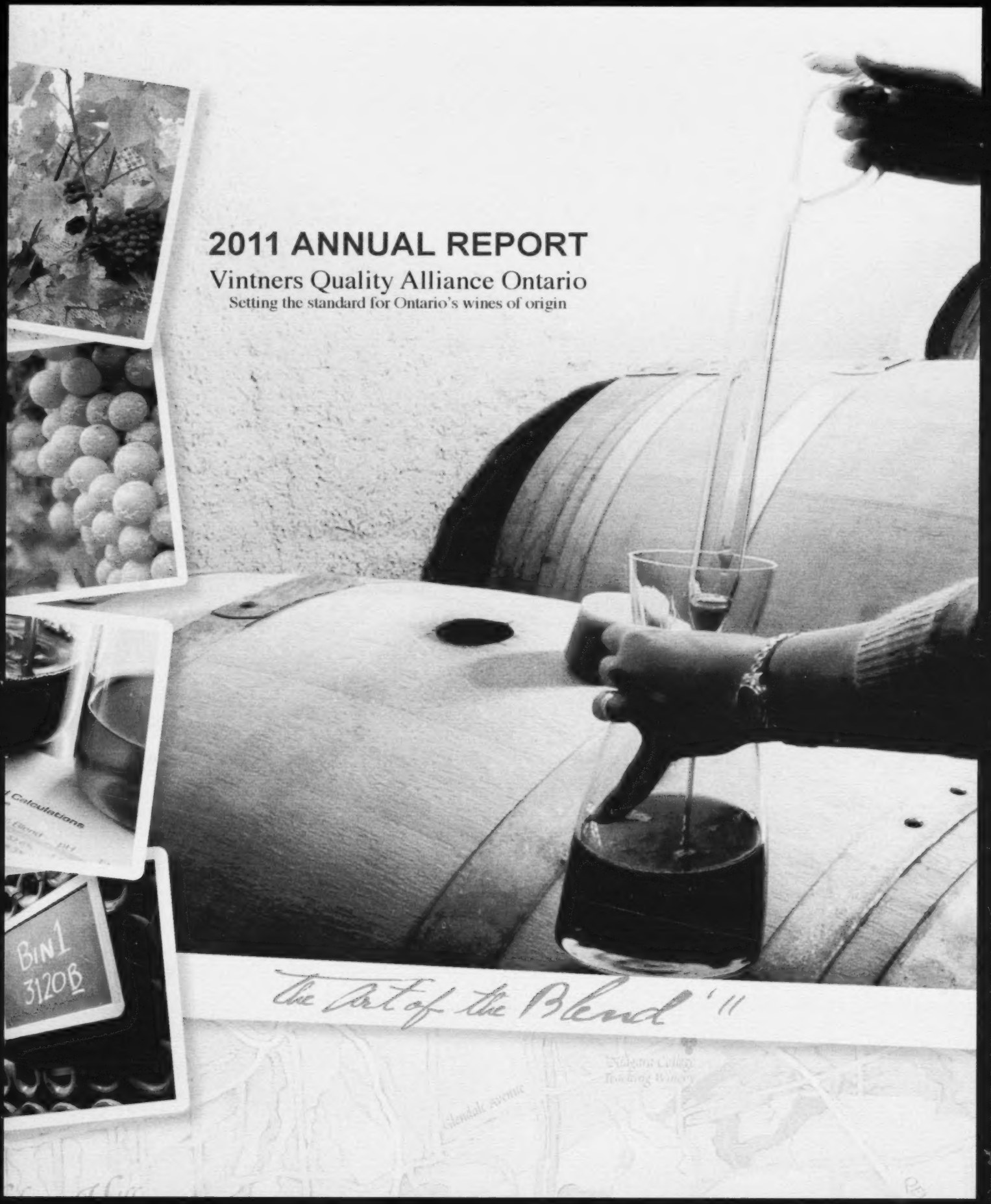


2011 ANNUAL REPORT

Vintners Quality Alliance Ontario

Setting the standard for Ontario's wines of origin

Who We Are

VQA Ontario is Ontario's wine authority that manages Ontario's wine appellation system as defined under the VQA Act of Ontario.

It exercises delegated authority from the Province of Ontario to ensure label integrity and allow consumers to identify wines of origin made from 100% Ontario grapes.

VQA Ontario is committed to working with and on behalf of consumers and its stakeholders in industry and government to promote a better awareness of Ontario's wine regions and wines of origin.

Vision

Consumers will use VQA appellations as their guide to buying authentic wines of origin and quality.

Mission:

Effectively manage the appellation system while encouraging continuous improvements in wine quality. Communicate the VQA assurance of origin and authenticity to consumers.

Strategic goals:

Origin, quality, authenticity.

Staff and Statutory Appointments

Laurie Macdonald
Executive Director

Barbara Dodds
Office Manager (VQA Inspector)

Susan Piovesan
Compliance and Information Officer (VQA Inspector)

Photo Credits: Steven Elphick's passion for wine and food translates itself into food, landscape and beverage photographs with a core of truth and beauty. He has been judging wine professionally since 1988.
www.stevenelphick.com

Design: Darren Richards
www.richardsdesign.ca

Board of Directors

Officers

Ken Douglas (4)
President and Chair
(elected from Thirteenth Street Winery)

Brian Schmidt (5)
Vice-Chair
(elected from Vineland Estates Winery)

Paul Speck (4)
Secretary
(elected from Henry of Pelham Family Estate Winery)

Newman Smith (4)
Treasurer
(elected from Strewn Wines)

Directors

Greg Berti (5)
Past-Chair
(elected from Andrew Peller Ltd.)

Jim Clark (5)
(elected from Colio Estates Winery)

Tony Elenis (4)
(appointed from Ontario Restaurant, Hotel and Motel Association)

Kevin Watson (4)
(appointed from Grape Growers of Ontario)

Norman Hardie (3)
(elected from Hardie Wines)

Keith Bown (5)
(elected from Vincor Canada)

Bill Redelmeier (5)
(elected from Southbrook Vineyards)

Walter Schmoranz (2)
(elected from Pelee Island Winery)

Mary Shenstone (4)
(appointed from Ontario Ministry of Intergovernmental Affairs)

Attendance at Board meetings:
Five Board meetings were held in 2010-2011. The number of Board meetings each Director attended is indicated beside their name.

Message from the Chair

The past year was a busy one for the VQA Ontario Board of Directors. In addition to the routine oversight of the operational responsibilities of VQA Ontario, we began a strategic review of the wine regulations with the aim of making sure the regulations continue to serve the interests of wine consumers and provide a fair and transparent regulatory system for wineries and all of our stakeholders. Preparation for the review included benchmarking ourselves against other wine regions, and completing an internal review of how VQA regulations have changed over the past two decades, how and what we regulate now and what we need to regulate in the future.

Our research shows that the VQA wine regulations have much in common with both old and new world wine systems. All major wine producing countries and regions regulate claims of origin and a large majority observe what we describe as the "appellation hierarchy" where additional standards are imposed as wines are identified by more specific claims of origin. Several proposals for regulation change have been adopted in the first stage of the review and more are currently under review. I look forward to a lively and thoughtful discussion of packaging, grape varieties, quality standards and the appropriate level of regulations tied to the integrity of label claims. Addressing all of the issues raised by the review, engaging all of our stakeholders and moving forward with modernizing the regulations will be a priority for the next year.

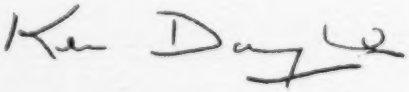
Our focus on origin and quality will continue. Wine origin will lead.

VQA sales were relatively strong compared to the overall wine market last year and I hope more consumers are getting to know both our wines and the unique contribution made by the origin of the grapes for each wine. Traffic on the VQA Ontario website is increasing and I hope this is an indication that both consumers and the wine trade are looking at the extensive resources that we have to offer about our appellations and our wines and are passing that knowledge along.

There have been substantial changes in the wine industry recently and the industry continues to evolve and grow. Amid these changes, VQA Ontario aims to maintain a steady focus on appellation. The vision that appellation, quality and integrity will be the foundation for consumer trust in VQA Ontario, and for loyalty to VQA wines, will guide us. I hope that will in turn provide a strong basis for the local wine industry to succeed.

I thank my fellow Directors on the Board of VQA Ontario for their dedication to their duties, particularly for their contribution to the sometimes complicated and even controversial discussion that is part of our strategic review. Each independent view is important to make sure we can ultimately make a good and well-considered decision. I also want to thank many others - our committee volunteers from industry, LCBO, CCOVI and elsewhere who assist with many crucial activities, LCBO who provide a high calibre of testing and other quality assurance support, government who provides oversight and guidance and of course our small staff which makes sure everything keeps running efficiently.

We will continue to work with all of our partners to achieve our fundamental goal to provide consumers with a credible system to identify wines of origin and build the integrity of Ontario's wine appellations.



Ken Douglas
President and Chair

Organization Values

Transparency and Fairness

VQA Ontario will carry out its statutory authority with transparency and fairness, and strive to uphold high ethical standards.

Responsiveness and Communications

VQA Ontario will conduct its operations openly, providing its members and the public access to information and timely responses to inquiries. It will adopt and implement appropriate policies to respect the confidentiality of its members and stakeholders. It will promote the value and benefits of VQA wines to consumers.

Firmness and Responsibility

VQA Ontario will discharge its regulatory responsibilities firmly to ensure VQA terms, descriptions and designations are not misused and consumers can rely on label integrity for all VQA wines.

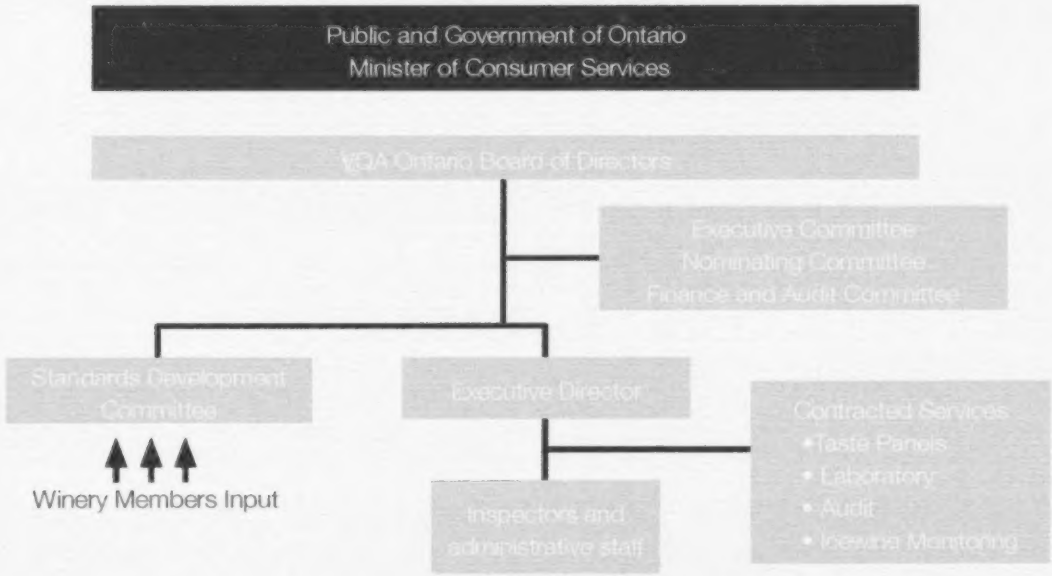
Accountability

VQA Ontario will be accountable for its decisions and promote effective and fair dispute mediation to resolve conflict.

Effectiveness

VQA Ontario will strive to carry out efficient and cost-effective operations, and continue to pursue service improvements in all areas of operations.

Organization Structure



2010 Vintage Report

Niagara Peninsula · Lake Erie North Shore · Pelee Island · Prince Edward County

Conditions

Winter and early spring were relatively mild and dry throughout southern Ontario in 2010. Precipitation, both snow and rain, was slightly lower than normal and average temperatures a bit above normal. Bud burst was about two weeks early in all the wine growing regions, mid April in the Niagara Peninsula, Lake Erie North Shore and Pelee Island and early May in Prince Edward County. Despite the prevailing warm conditions, Prince Edward County was hit with frost in mid May, resulting in some bud damage but without widespread ill effects.

May was warm and summery with mean temperatures hovering 2 to 3 degrees above normal and a number of high temperature records broken. Early season growth was rapid and healthy. Despite the heat, there was relatively little severe weather.

June saw normal temperatures, higher precipitation and severe weather including four tornadoes in the Lake Erie North Shore appellation at the start and end of the month. Fortunately, for the grape crop, no vineyards sustained any lasting damage.

Severe thunderstorms continued into early July for Lake Erie North Shore but on balance the July weather was hot, sunny and perfect for maturing grapes. Some heavy downpours left enough moisture to cause slight disease pressure in a few locations but generally rain came in healthy amounts and there was lots of sunshine hours to fuel growth. August was warmer and drier than normal in all regions, and included a record low precipitation for Lake Erie North Shore. Conditions could not have been more perfect for ripening grapes and winemakers were very excited about quality prospects heading into harvest.

Harvest

Thanks to the warm season, the grape harvest began approximately two weeks early with sparkling wine grapes harvested in late August. Warm dry conditions in September were ideal and allowed winemakers maximum flexibility to choose the best time for harvest. Consensus reigned in all regions that the 2010 vintage has tremendous potential for all varieties and that it would be a particularly promising year for the longer ripening varieties that are sometimes challenged by Ontario's climate.

Temperatures cooled gradually into October with a smooth transition from the summer heat to warm days and cool nights and then to cooler mid-teen temperatures by late October. The first frost came in early October for Prince Edward County and some of the cooler sub-appellations in Niagara and gradually over the next two weeks for the remaining appellations. Harvest for table wines was substantially completed by mid October.

Preliminary registrations for Icewine and Late Harvest grapes show that production will remain similar to 2009 and substantially lower than the records near 7000 tonnes set through 2006 and 2007. Subject to audit verification, a total of 1560 tonnes have been left hanging for use in Icewine and Late Harvest wines for the 2010 vintage.

Wine expectations

2010 should be a great vintage, possibly the best of the decade. All of the conditions aligned favourably for this growing season and there was virtually no negative impact from Mother Nature. Look for wines that express the maturity and balance of the 2010 season and show all that the developing terroirs of Ontario's appellations are capable of. Every variety has an opportunity to show well this year.

Operations

Executive Director's Report

2010 saw a steady focus on VQA Ontario's mandate to ensure label integrity and clarity for Ontario's wines of origin. A number of minor regulation changes were finalized and implemented in 2010. Perhaps more significant was the beginning of a strategic review of the fundamental objectives of the winemaking regulations and whether specific changes are needed to ensure the regulations support these goals and the future needs of consumers and wine industry stakeholders. The staff organization is working to support the regulatory review process and looks forward to engaging our stakeholders in this important process.

A number of administrative changes were introduced this past year. Inspection and investigation provisions of the VQA Act were updated and internal protocols were revised to reflect these changes. It is not anticipated that these changes will impact day to day operations of wineries.

New performance measures for government are now in effect including a "balanced scorecard" that assesses VQA Ontario's effectiveness in administering the VQA Act and related service delivery. The first report will be submitted next year and will form a benchmark for future reporting on rates of compliance and the efficiency of regulatory processes.

VQA Ontario's core business activities of wine testing, label review, audit and enforcement remain a top priority for the staff organization. Growth in the number of new VQA wineries and brands, and VQA wine production, continued to be very strong. The number of participating wineries increased from 110 to 123 and over 1600 wines were submitted for evaluation. An especially high volume of approval applications was received during the months of February through April and I thank LCBO's Quality Assurance staff for their professionalism and commitment which allowed these samples to be processed with virtually no backlogs.

Following on last year's implementation of the online system to manage wine approvals, an upgrade has now been added allowing for the electronic upload of label files. This moves the system closer to a paperless process and will further increase efficiencies and tracking ability for both wineries and VQA Ontario.

As a result of the new online system, VQA Ontario has more comprehensive data available in electronic format and is able to generate more comprehensive statistics that describe approved VQA wines and the outcomes of VQA testing and evaluation. These statistics are found in this printed report along with enhanced statistics on inspection activities and outcomes.

As always, I am grateful for the direction and support provided by VQA Ontario's Chair, Ken Douglas, and his colleagues on the Board of Directors. This year the Board and our Standards Development Committee members have devoted considerable effort towards a proactive review of the VQA regulations to ensure they remain relevant and up to date with current technologies. It is their leadership that will allow us to recognize and support innovation, while maintaining the integrity and reputation of our wine regions and the trust of consumers. I would also like to express my appreciation for the dedication and responsiveness of my staff, Barbara Dodds and Susan Piovesan for doing an excellent job running the office and thank the many others who provide services to us.

L. Macdonald

Laurie Macdonald
Executive Director

Performance Goals

-Manage Ontario's wine appellation system with a focus on origin, quality and authenticity

-Promote recognition and understanding of the VQA appellation system

-Protect consumers through label integrity

-Provide a strong transparent and credible framework for the production and labelling of wines of origin

Membership

123 wineries were registered as participants in the VQA program at the end of March 2011. These included 5 large wineries (sales of over 750,000 litres of VQA wines) 19 medium class wineries (sales of 100,000 to 750,000 litres of VQA wines) and 99 small wineries (sales of up to 100,000 litres of VQA wines).

Regular member communications included newsletters and bulletins. A bulletin board has been added to the secure member site to reinforce important process information and help support winemaker-directed communication.

Product Approvals

1619 applications for approval to use the VQA designation and descriptive terms regulated under the VQA Act were processed. Each wine must successfully complete comprehensive quality assurance testing including a taste test, laboratory analysis and packaging review before being certified as a wine of origin. Approvals were granted for 1506 wines, and denied for 113.
The third phase of a secure online system (known as 'WAS') for processing wine approval applications was completed in the fall of 2010. This final phase allows for label proofs to be uploaded directly into the approvals database for assessment. Previous phases introduced online applications and added online tracking and reporting of results. This project improves access and information management for wineries and has considerably reduced the paperwork burden.

Activity Highlights

13 new member wineries

93% overall success rate for wine approval applications

Chardonnay the top production VQA varietal wine

206 export certificates issued

401 audits and inspections conducted

6 compliance orders issued

Quality

Maintaining minimum quality standards continues to be an important part of VQA Ontario's mandate. In addition to enforcing standards, VQA Ontario runs two programs to support and encourage wineries to pursue the best quality outcomes possible and exceed minimum standards. Winemakers Forums, held in all wine regions, are a venue where winemakers share experiences and best practices in an informal setting and discuss techniques that are especially successful in Ontario's unique growing conditions. The second program provides an analysis of outcomes at the VQA tasting panel that allows wineries to benchmark themselves and gain insight into how performance might be improved. These two programs often work together with information from the tasting analysis providing topics for discussion at the Winemakers Forum. VQA Ontario is pleased to establish a more formal partnership with the Cool Climate Oenology and Viticulture Institute that will see it contribute expertise to VQA Ontario's quality enhancement programs.

Inspections and Audits

218 routine audits were conducted during 2010 – 2011 to verify compliance with origin and production standards for all approved VQA wines. Each winery member was subject to an on-site audit on a 6 to 8 month interval, depending on their compliance record. In addition, 183 random inspections were completed at the retail level, focused primarily on ensuring ongoing compliance with VQA packaging and labelling regulations. As a result of audits and inspections, follow up was conducted in 96 cases. The majority of issues addressed were minor in nature. VQA Ontario also conducted a review of winery websites to confirm that online advertising and sales were compliant with the VQA Act.

Enforcement

Most compliance issues were resolved with warnings and corrective actions. VQA Ontario issued 6 compliance orders in relation to a winery using regulated terms without approval of failing to take corrective action within a stipulated time. No charges were laid under the VQA Act in 2010-2011.

Regulatory Review

Several regulatory amendments were initiated in 2010-2011 related to grape varieties, effervescent wines, brix requirements, varietal labelling and sparkling Icewine. It is anticipated that these will become law in mid-2011.

Trade and Export Development

Along with stakeholders from industry and government, VQA Ontario continued to participate in discussions to promote recognition and acceptance of the VQA appellation standard and access to world markets. VQA Ontario provides an independent certification process required by the European Union as a condition of access to member states. 206 European export certificates were issued last year.

Appellation Awareness

VQA Ontario participated in and supported a number of programs aimed at informing members, the public, consumers and industry groups about VQA appellations of origin, quality standards and the value of a regulated appellation system.

A new dynamic website with greatly enhanced resources on appellation and comprehensive information on VQA and VQA wines was launched in early 2009 and has been used to provide a strong platform for enhancing VQAO's communications infrastructure.

Statistics

VQA Ontario introduced a web-based application process in 2009 and is now able to report a wide range of statistics about wines that have gained VQA approval and about the approvals process.

VQA Wine Production

All statistics are for the period of April 1, 2010 to March 31, 2011. These figures are based on wines approved during this period and are calculated using volumes declared at the time of submission for approval. Reported volumes may reflect wines that have not yet been released but will not reflect wines that may be finished but not yet submitted for approval.

Production summary

Wine category	Number of wines	Volume (9 L cases)	Change from last year (volume)	Estimated grape tonnage
Table Wine	1316	2,145,435	+25%	26600
Icewine	111	76,957	-24%	4000
Late Harvest	26	13,383	-32%	250
Sparkling	47	57,881	+197%	700
Other	6	1,706	-26%	20
Total	**1506**	**2,295,362**	**+23%**	**31570**

2010-11 Production

Appellations

This table includes all wines labelled with the stated appellation on the principal display panel. These wines must contain at least 85% content from the stated appellation. Wines labelled with one of the ten sub-appellations of the Niagara Peninsula must contain 100% content from the stated appellation. The Niagara Peninsula volume does not include wines that are labelled with a sub-appellation of this region, which are included in the next row.

As declared on label	Cases (9L)	% of all VQA wines
Ontario	664148	29%
Niagara Peninsula	1325430	58%
Sub-regions of Niagara	251081	11%
Lake Erie North Shore and Pelee Island	30732	1%
Prince Edward County	23970	1%

Interest in grape growing and winemaking continues to expand in areas outside of VQA designated wine regions. Grapes grown in central Ontario ranging from London-Norfolk through Grey-Bruce and across the Toronto to Trenton corridor are currently used in some Ontario designated VQA wines.

Grape varieties used in all VQA wines

Variety	% of total production (by volume)
Chardonnay	19%
Riesling	17%
Cabernet Franc	11%
Merlot	10%
Vidal Blanc	6%
Cabernet Sauvignon	6%
Sauvignon Blanc	6%
Pinot Noir	6%
Pinot Gris	5%
Gewurztraminer	4%
Others	10%

White grape varieties used in all VQA wines – 58%

Red grape varieties used in all VQA wines – 42%

Table wines

The table wine category includes white, red and rosé wines. The overall production of table wine increased by 25% last year, after a 13% decrease in the previous year. Wines labelled with a grape variety or varieties still dominate the table wine category, accounting for 92% of table wines. This split remains stable from last year.

Colour		Litres	Cases (9L)
White	Varietal	10,418,335	1,157,592
	Non-varietal	514,310	57,146
	Total white	**10,932,645**	**1,214,738**
Red	Varietal	6,833,279	759,253
	Non-varietal	912,716	101,413
	Total red	**7,745,995**	**860,666**
Rose	Varietal	464,230	51,582
	Non-varietal	166,043	18,449
	Total rose	**630,273**	**70,030**

Popular single-varietal table wines

Chardonnay and Riesling continue to be the most popular white varietals by a wide margin and Merlot and Cabernet Franc lead the red varieties. This table includes the top four varieties used in wines that are labelled with a single grape variety. These wines must contain at least 85% of the stated variety.

Colour	Varietal	Litres	Cases (9L)
White	Chardonnay	3,175,091	352,788
	Riesling	2,141,486	237,943
	Pinot Gris	991,355	110,151
	Sauvignon Blanc	922,843	102,538
Red	Merlot	1,016,434	112,937
	Cabernet Franc	892,676	99,186
	Pinot Noir	768,149	85,350
	Baco Noir	593,713	65,968

Icewine

Variety	Litres	Cases (9L)
Vidal	372,665	41,407
Riesling	187,316	20,813
Cabernet Franc	92,646	10,294
Cabernet Sauvignon	15,314	1,702
Others	21,435	2,382
Total	**689,376**	**76,597**

Other wines

Variety	Litres	Cases (9L)
Late Harvest and Botrytis Affected	120,451	13,383
Fortified and Liqueur wines and Vin de Cure	15,350	1,706
Sparkling wines	520,929	57,881

VQA Ontario Wine Sales

Year ending March 31, 2011

By Volume

	Litres (2011)	Litres (2010)	% Change
Winery Retail	4,479,916	4,761,605	-6%
Licensees	2,991,023	2,854,605	5%
LCBO (shipped)	6,750,913	6,240,116	8%
Outside of Ontario and miscellaneous	1,345,218	1,203,587	12%
Total	**15,567,070**	**15,059,913**	**3%**

By Retail Value

	Retail value ($) (2011)	Retail value ($) (2010)	% Change
Winery Retail	99,977,816	98,610,285	1%
Licensees	46,802,498	42,136,457	11%
LCBO (shipped)	103,813,774	95,393,125	9%
Outside of Ontario and miscellaneous	37,197,030	34,064,044	9%
Total	**287,791,117**	**270,203,911**	**7%**

Compliance and Enforcement

VQA Ontario enforces compliance with the VQA Act and regulations as its primary mandate. The regulatory process starts with the monitoring of grape quality at harvest through independent sugar testing, and regular audits and inspections related to wine origin and content, wine making processes, record-keeping, labelling and advertising. Once the wine is finished and submitted for VQA approval, taste tests, laboratory tests and label reviews are completed. Only after having successfully completed this process can a wine receive approval and be released for sale, using designated terms and descriptions.

Activities

Full on-site audits - 218
Retail store inspections - 183
Investigations - 1
Random testing of approved wines - 25
Warnings and minor corrective orders issued - 35
Compliance orders issued – 6

Performance Measures

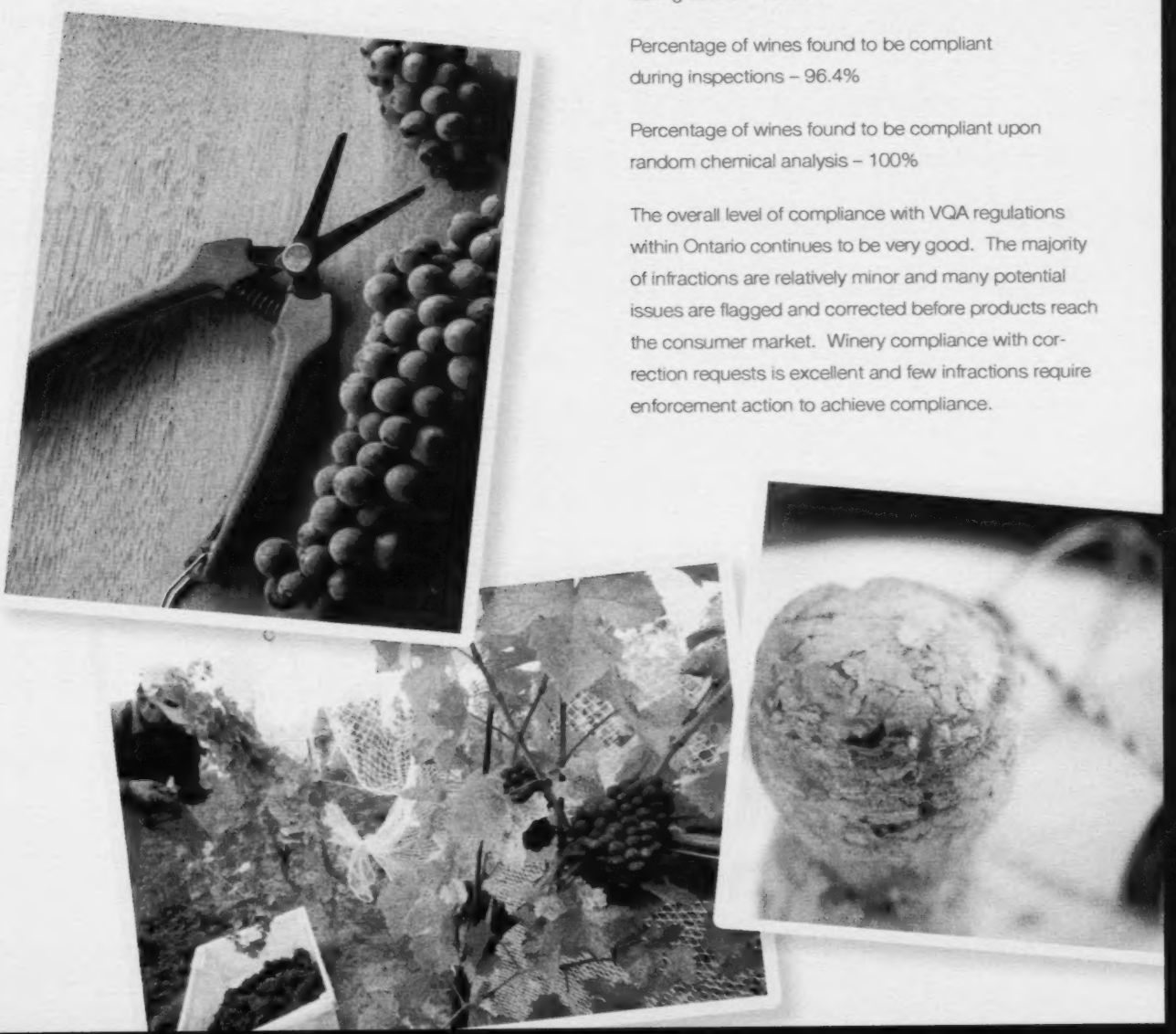
Percentage of audits completed with no issues raised - 86%

Percentage of wines found to be compliant during audits - 99.5%

Percentage of wines found to be compliant during inspections – 96.4%

Percentage of wines found to be compliant upon random chemical analysis – 100%

The overall level of compliance with VQA regulations within Ontario continues to be very good. The majority of infractions are relatively minor and many potential issues are flagged and corrected before products reach the consumer market. Winery compliance with correction requests is excellent and few infractions require enforcement action to achieve compliance.



VQA Wine Testing and Approval Process

Every wine that carries a regulated appellation of origin and the VQA certification has completed a rigorous approval process. Once a wine is finished and ready to bottle it is submitted to VQA Ontario for testing and approval. The evaluation includes a taste tests, laboratory tests and label reviews to ensure the wine meets quality standards and is labelled according to VQA regulations. Labelling regulations reserve certain terminology for eligible VQA wines and set standards for declaring origin, varietal content, vintage and other attributes. These regulations ensure consumers are not misled with respect to the wine content. Only after having successfully completed all components of this process can a wine receive approval and be released for sale, using regulated terms and descriptions. A range of inspection and audit programs also verify that underlying standards are met.

Activities

Applications for wine approval evaluated – 1619
Number of wines approved for VQA status – 1506

System Performance Measures

Percent of applications completed within the 3-week target – 91%

Online query and reporting system uptime - 99% (100% during business hours)

Wine Performance Measures

Overall success rate – 93%
Pass rate at tasting panel – 93.2% (final status)
Pass rate at laboratory – 99.2% (final status)

Financial Summary

VQA Ontario is funded by its member wineries through sales levies and fees for service. It continues to seek out ways to maximize the efficiency of service delivery, including sharing services with other agencies. VQA Ontario acknowledges the Liquor Control Board of Ontario for its valued assistance and cooperation in providing contracted services that increase VQA Ontario's efficiency in performing its regulatory role.

This summary is drawn from the auditor's report and financial statements for the year ended March 31, 2011.

Revenue exceeded expenditures by $3,276 for the year ended March 31, 2011. This moves VQA Ontario into a balanced budget situation after several years with an operating deficit that was part of a plan to reduce equity to specific target levels and implement a sustainable fee structure. Total revenue was $1,285,324 compared to total expenses of $1,282,048. Net assets carried forward are $456,886, up marginally from $453,610 in 2010, reflecting the balanced budget. Net assets include restricted funds in the amount of $200,000 that are allocated to a legal contingency fund as well as general operating contingencies.

Revenue for fiscal 2011 was derived primarily from member bottle fees ($755,421) and approval fees ($383,901).

Total expenditures for the year were $1,282,048 with major expenses including wine approvals and quality monitoring ($467,190), public education ($250,000) and employee costs ($354,006).

Financial Statements

For the Year Ended March 31, 2011

Kopstick Osher
Chartered Accountants, LLP

Mark Kopstick C.A.
Benjamin Osher C.A.
William Genga B.Comm.

In association with
Reiner Goebel C.A.

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Vintners Quality Alliance Ontario

Report on the Financial Statements
We have audited the accompanying financial statements of Vintners Quality Alliance Ontario which comprise of the statement of financial position as at March 31, 2011, and the statements of operations, changes in net assets and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform an audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the financial statements present fairly, in all material respects, the financial position of Vintners Quality Alliance Ontario as at March 31, 2011, and its financial performance and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Kopstick Osher

KOPSTICK OSHER
Chartered Accountants, LLP
Licensed Public Accountants

Toronto, Canada
June 8, 2011

Statement of Financial Position

As at March 31, 2011

	2011	2010
ASSETS		
Current		
Cash	$ 261,089	$ 202,566
Investments - Note 3	221,284	200,035
Accounts receivable	60,216	72,735
Prepaid expenses	8,072	7,457
	550,661	482,793
Investments - Note 3	101,517	114,447
Capital - Note 4	63,134	75,594
	$ 715,312	$ 672,834
LIABILITIES		
Current		
Accounts payable and accruals	$ 243,614	$ 203,939
Deferred revenue - Note 5	14,812	15,285
	258,426	219,224
NET ASSETS		
Net assets	456,886	453,610
	$ 715,312	$ 672,834

The accompanying notes form an integral part of these financial statements

APPROVED BY THE BOARD:

Statement of Changes in Net Assets

For the Year Ended March 31, 2011

	Invested in capital assets	Internally restricted for legal and enforcement fund (note 6)	Unrestricted	2011 Total	2010 Total
Net assets - beginning of year	$ 75,594	$ 200,000	$ 178,016	$ 453,610	$ 480,484
Excess of revenues over expenses (expenses over revenues)	-	-	3,276	3,276	(26,874)
Purchase of capital assets	10,700	-	(10,700)	-	-
Amortization of capital assets	(23,160)	-	23,160	-	-
Net assets - end of year	$ 63,134	$ 200,000	$ 193,752	$ 456,886	$ 453,610

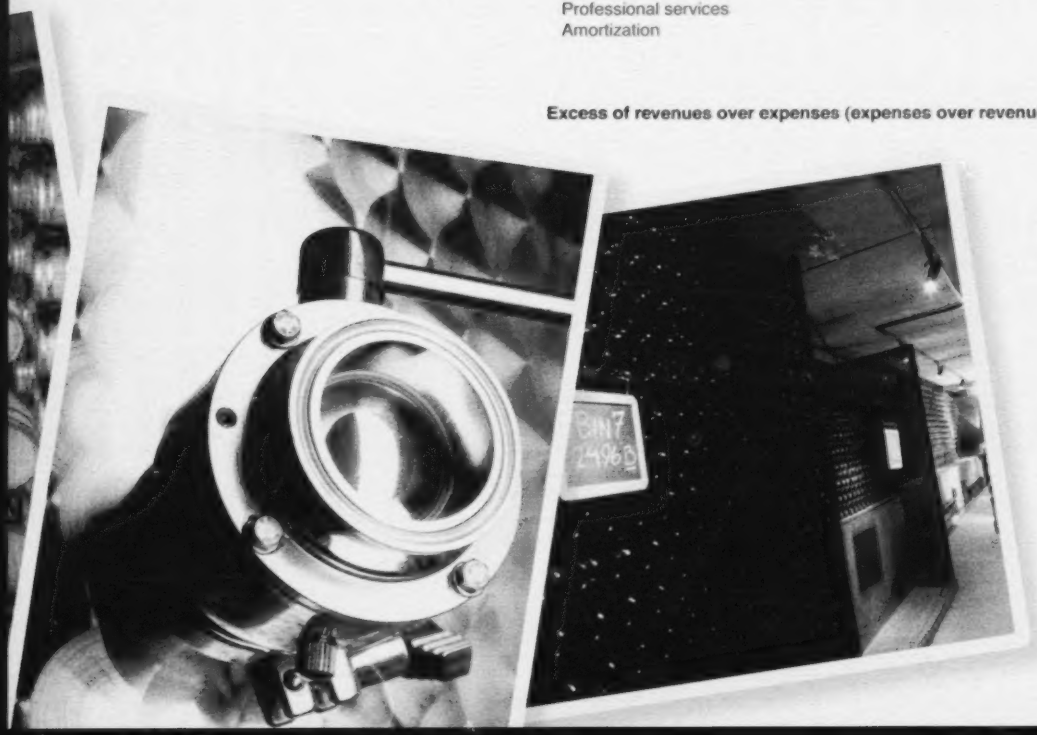
The accompanying notes form an integral part of these financial statements

Statement of Operations

For the Year Ended March 31, 2011

	2011	2010
Revenues		
Membership fees	$ 122,000	$ 112,500
Bottle fees	755,421	727,044
Approval fees	383,901	321,645
Interest income	8,462	11,809
Other income	15,540	13,880
	1,285,324	1,186,878
Expenses		
Salaries and benefits	354,006	327,381
Contracted services	12,640	12,940
Public education	250,000	250,000
Approvals	449,869	387,682
Quality assurance and inspection	17,321	20,416
Strategic planning	11,345	-
Export development and trade	906	917
Appellations	-	18,984
Weather monitoring	4,000	4,000
Meetings	5,539	9,088
Travel	3,853	3,124
Rent and occupancy	38,400	38,400
Office and general	18,262	29,504
Printing and mailing	10,500	11,684
Telephone and communications	6,938	7,169
Insurance	29,373	29,249
Professional services	45,936	40,925
Amortization	23,160	22,289
	1,282,048	1,213,752
Excess of revenues over expenses (expenses over revenues)	$ 3,276	$ (26,874)

The accompanying notes form an integral part of these financial statements



Statement of Cash Flows

For the Year Ended March 31, 2011

	2011	2010
Cash flows from operating activities		
Excess of revenues over expenses (expenses over revenues)	$ 3,276	$ (26,874)
Non-cash items:		
Amortization	23,160	22,289
Interest capitalized on investments	(8,319)	(11,677)
Changes in non-cash working capital		
Accounts receivable	12,519	(4,639)
Prepaid expenses	(615)	292
Accounts payable and accruals	39,675	2,687
Deferred revenue	(473)	(3,430)
	69,223	(21,352)
Cash flows from investing activities		
Purchase of investments	(200,623)	(200,000)
Proceeds from disposal of investments	200,623	327,728
Purchase of capital assets	(10,700)	(18,483)
	(10,700)	109,245
Cash flows from financing activities	-	-
Increase in cash	58,523	87,893
Cash - beginning of year	202,566	114,673
Cash - end of year	$ 261,089	$ 202,566

The accompanying notes form an integral part of these financial statements

Notes to Financial Statements

March 31, 2011

1. **Purpose and legal form of the organization**

   Vintners Quality Alliance Ontario is an independent organization that administers the Vintners Quality Alliance Act, 1999 and its regulations through an administrative agreement with the Ontario government. It establishes, monitors and enforces a system of quality assurance and verification of product origin for wines bearing the VQA logo.

   Vintners Quality Alliance Ontario exists as a not-for-profit corporation without share capital. It is not subject to income tax.

2. **Significant accounting policies**

   Revenue recognition

   Vintners Quality Alliance follows the deferral method of accounting for revenues. All revenues are recognized in the year to which they pertain.

   Investments

   Investments consist of fixed income term deposits whose term to maturity is greater than three months from the date of acquisition. Fixed income investments maturing within twelve months from year-end are classified as current.

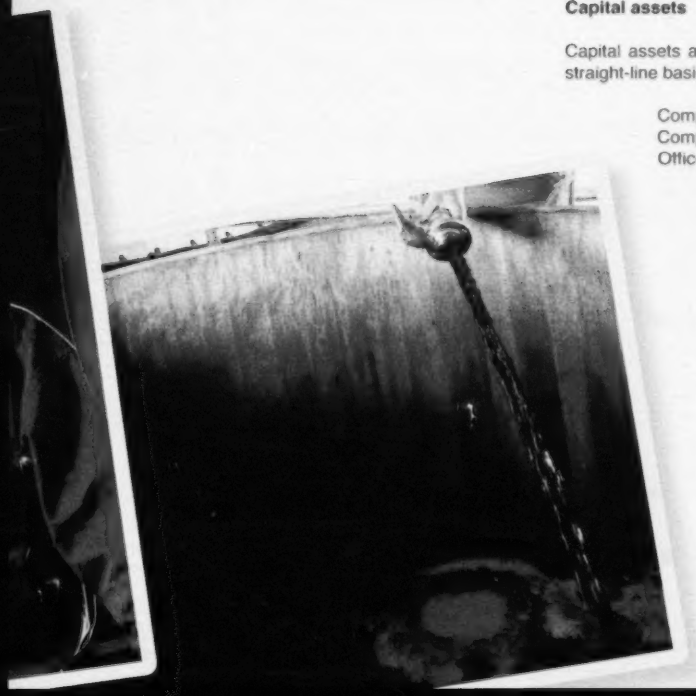
   The investments are classified as held to maturity and are recorded at amortized cost as it is management's primary objective to hold investments to maturity.

   The amortized cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction for impairment or uncollectability.

   Capital assets

   Capital assets are recorded at cost less accumulated amortization. Amortization is provided for on a straight-line basis at the following annual rates:

Computer equipment	20%
Computer software	20%
Office furniture and equipment	20%



Notes to Financial Statements

March 31, 2011

2. Significant accounting policies (continued)

Contributed materials and services

The organization receives substantial contributed services from members and others through participation on the Board of Directors and other committees. Because of the difficulty in determining their fair value, such services are not recorded in these financial statements.

Use of estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from management's best estimates as additional information becomes available in the future.

Financial instruments

Financial assets and liabilities are initially recognized at fair value and their subsequent measurement is dependant on their classification as described below. Their classification depends on the purpose for which the financial instruments were acquired or issued, their characteristics and the organization's designation of such instruments.

Cash
Cash is classified as held for trading, which is measured at fair value. Any fair value fluctuations are included in income.

Investments
Investments are classified as held to maturity, which are measured at amortized cost using the effective interest rate method.

Accounts receivable
Accounts receivable are classified as loans and receivables, which are measured at amortized cost using the effective interest rate method.

Accounts payable and accruals
Accounts payable and accruals are classified as other liabilities, which are measured at amortized cost using the effective interest rate method.

Effective interest rate method
The organization uses the effective interest rate method to recognize interest income or expense for financial instruments.

3. Investments

	Face value	Amortized Cost
CIBC GIC - Yr1 2.75%; Yr2 3.75%; Yr3 6.00%, maturing July 22, 2011	$ 108,573	$ 120,537
CIBC GIC - 0.65%, maturing April 15, 2011	100,123	100,747
CIBC GIC - 2.20%, maturing October 15, 2012	100,500	101,517
	309,196	322,801
Less: portion maturing within one year of the year-end date	208,696	221,284
Classified as long-term	100,500	101,517

At March 31, 2010, investments at face value and amortized cost were $308,573 and $314,482, respectively.

Notes to Financial Statements

March 31, 2011

4. Capital assets

	Cost	Accumulated Amortization	2011 Net Book Value	2010 Net Book Value
Computer equipment	$ 19,890	$ 14,949	$ 4,941	$ 8,393
Computer software	104,862	47,091	57,771	66,499
Office furniture and equipment	8,637	8,215	422	702
	$ 133,389	$ 70,255	$ 63,134	$ 75,594

5. Deferred revenue

Deferred revenue represents membership fees and product approval fees received, which relate to the subsequent year.

6. Net assets internally restricted for legal and enforcement fund

Net assets of $200,000 have been restricted for a specific purpose. They may be used only for enforcing adherence to the regulations of the Vintners Quality Alliance Act.

7. Financial instruments

Fair value of financial instruments

The fair value of a financial instrument is the estimated amount that Vintners Quality Alliance Ontario would receive or pay to settle a financial asset or financial liability at the reporting date.

The carrying values of cash, investments, accounts receivable and accounts payable approximate their fair values due to their liquidity.

Risk management

Risk management is incorporated into Vintners Quality Alliance Ontario day to day management activities and an annual review of risks is completed by the Board.

Vintners Quality Alliance Ontario has exposure to the following risk associated with its financial instruments.

Credit risk
The organization maintains cash and investments, with financial institutions, which are in excess of amounts insured by the Canada Deposit Insurance Corporation (CDIC). Management monitors the soundness of these institutions and considers the organization's risk to be negligible.

8. Commitments

VQA Ontario has entered into an agreement with the Wine Council of Ontario to provide funding in support of activities to promote the awareness, understanding and use of the VQA appellations in the amount of $250,000 in the next fiscal year, with anticipated renewal on an annual basis until 2015.

The organization has a 5 year sub-lease with the LCBO effective April 1, 2008 for space it occupies. Rent over the remaining 2 years is $38,400 per annum.

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